



LETTER FROM *the Executive Director*



The Commission and staff are pleased to release this Annual Report on the Massachusetts Public Retirement Systems for 2016, a year in which surprising electoral results were accompanied by a solid capital market performance.

The investment performance outlined herein provides a counter to the assertions that investment return assumptions used in conducting actuarial valuations of the retirement systems are unrealistic and need to be dramatically reduced. Investment returns in 2016 again generally mirrored the markets and for most retirement boards either met or were close to actuarial assumptions. As has been consistently the case for many years, long term returns remained, in general, above assumptions. Consequently, as these assumptions are reviewed, we can confidently face the challenges ahead.

As PERAC Actuary Jim Lamenzo constantly reminds us, these are long range assumptions and not based on the experience of one or two years. PERAC recognizes the importance of this assumption and has been working with the retirement boards to reduce that expectation in a measured and substance driven manner. This contrasts with the fevered and agenda driven assertions of those advocating a swift and dramatic reduction in spite of the lack of supporting long term evidence.

Beyond the investment assumption, PERAC and the retirement boards have continued to update mortality tables and adapted to new accounting standards. As a result the Massachusetts public pension system stands in contrast to many systems across the country that, due to poor plan construction, failure to properly fund, and truly unrealistic actuarial assumptions, stand on the verge of collapse.

COMMISSION/STAFF CHANGES

Vacant positions in the Audit Unit were filled with the hiring of Elaine Pursley, CPA, Carol Poladian, CPA, Teresa Coley, and Richard Wrona, CPA. Elaine is a Certified Public Accountant with over 25 years of auditing experience in the private sector. Carol is a Certified Public Accountant with over 25 years experience with private sector audit firms. Teresa holds a Bachelor's Degree in Accounting and most recently worked as a Senior Corporate Tax Auditor with the Oregon Department of Revenue. Richard is a Certified Public Accountant with over 30 years in public sector auditing, working at the State Auditor's Office as an Assistant Audit Manager.

Lastly, to assist with the development of PERAC's PROSPER Computer System, we recently hired John Philley to fill the position of .net Developer. John has over 20 years' experience designing, programming, and developing computer applications in the private sector.

FEE REPORT

PERAC once again published a compilation of the fees paid by the pension systems to investment vendors. The report consisted of the Schedule 7 filed by each Board as part of its Annual Statement of Financial Condition.

According to these submissions (some of which were incomplete or needed adjustment) retirement boards paid \$400 million to investment service providers in 2015. For the State and Teachers' funds, which are invested by the Pension Reserves Investment Management Board (PRIM), \$257.3 million in fees were incurred. Local retirement boards paid \$143.6 million to money managers, banks and investment consultants as well as PRIM.

The Annual Fee Report enables retirement boards to make comparisons between fees the board pays in connection with a particular manager or fund and the fee other boards pay in connection with the same manager or fund. Armed with that information a board can discern discrepancies between fee schedules and hopefully realize savings in the event it is paying more than its peers for the same service or product. In fact, in one instance a retirement board, upon bringing such a discrepancy to the attention of the service provider, realized an immediate \$40,000 savings.

The level of cost in and of itself is neither a positive or negative but must be assessed in the context of returns, as performance may justify cost.



PERAC published their second compilation of the fees paid by the pension systems to investment vendors.

It should also be emphasized that retirement boards must conduct their own analysis of the fees paid or expected to be paid in connection with investment activities. Over the last few years, our analysis has found that service providers often are unclear about not only the costs to the system, but also the manner in which payment is made.

VENDOR DISCLOSURES

For several years, PERAC and the retirement boards have been receiving Annual Vendor Disclosure Forms from various vendors providing investment related services. This is another source of information relating to the amounts that may be paid to and amounts that may be paid by these vendors as a result of their relationship with a retirement board. These Disclosures reveal payments made by the vendor for marketing efforts. In some cases those payments have amounted to \$500,000 a year.

Retirement boards should conduct a review of these filings at a public meeting to assure maximum transparency.

EMERGING ISSUES FORUM

PERAC held its Twelfth Emerging Issues Forum at the College of the Holy Cross in September 2016. Over 250 people participated and board members attending received three educational credits. The keynote address by former GIC Director Dolores Mitchell provided attendees with a unique perspective on her many years of state service and the importance of a commitment to public service. Dolores represents the finest tradition of that service and we thank her for her remarks as well as for her efforts on behalf of public employees and retirees.



Joe Connarton introduces Emerging Issues Forum keynote speaker, retired GIC Executive Director, Dolores Mitchell

Mark Abrahams of The Abrahams Group and Jim Lamenzo, PERAC's Actuary, kicked off the presentations with a discussion on Other Post Employment Benefits (OPEB). Mr. Abrahams focused on setting up an OPEB Trust and reviewed the potential impact of recent GASB statements on unfunded liabilities. Jim highlighted PERAC's OPEB Summary Report which contains OPEB Unfunded Liability for Massachusetts governmental units. Following that PERAC Deputy General Counsel Judith Corrigan, Disability Manager of Medical Services Kate Hogan, and Nurse Manager Patrice Looby provided a step-by-step overview of the disability application process, including the post approval



Terence M. Keane, Ph.D. gives a presentation on the status of the field of Post-Traumatic Stress Disorder

stage. Helpful hints for ensuring a smooth handling of the cases was also provided. As part of the disability presentation Dr. Terence Keane, from the Veterans Administration National Center for Post Traumatic Stress Disorders (PTSD) discussed the approach the VA is taking to care for PTSD patients through psychological and pharmacological treatment. To wrap up the Forum Jim Lamenzo and PERAC Senior Actuarial Associate, John Boorack, presented “The Pension Crisis, Looking Back and Looking Forward”, focusing on the relationship between individual actuarial assumptions and unfunded liabilities. A primary emphasis was the need for governmental units to make appropriations as determined by funding schedules.

PROSPER

As I mentioned last year, the Commission has been working on a dramatic and ambitious overhaul of the way it interacts with retirement board members and staff on a day-to-day basis. The goal of the project is to create more efficient business processes for both PERAC and retirement boards through the use of self-service portals, electronic signatures, and a centralized database. In April, we began the phase-in of the PROSPER Portal Project, which is now up and running for Compliance and Disability. Thus far the rollout has been well received.

We will be going live with other areas in the coming year. We firmly believe that following a reasonable learning curve period, a dramatic simplification of our interaction with board administrators, board members, and vendors will be achieved.



Patrice Looby, Kate Hogan and Judith Corrigan during the Disability Retirement Panel at the 12th Annual Emerging Issues Forum

EDUCATION

One of the true success stories of recent years has been the implementation of the mandatory education provisions of Chapter 176 of the Acts of 2011. Through its fifth year that program has seen nearly 8,000 course completions by retirement board members. These include 4,781 attendees at PERAC approved conferences including MACRS, 1,756 attendees at stand alone PERAC events, 1,141 completions of Ethics Commission and Attorney General courses, and 114 completions of webinars.

CONCLUSION

This Report is dedicated to former PERAC Commissioner Ken Donnelly. That dedication is a small way for PERAC and its staff to remember Ken as we go through our daily tasks. For those who worked with Ken, his intellect, commitment, and sincerity will serve as an inspiration. Beyond that working relationship for me and so many others, Ken was a supportive, caring and loyal friend. His loss is already being felt on a professional, but most importantly, on a personal level.

Sincerely,

Joseph E. Connarton

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Executive Director